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## Understanding Project Procurement Management

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### Abstract

In today's world with most organizations going in for outsourcing their projects, Project Procurement Management becomes a very important part of Project Management. This article discusses the concept in detail.

by [Arindam Ghosh](#)

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## Introduction

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The management of processes of purchasing or acquiring the products, from outside the project team to perform the work is defined as project

- Plan Purchases and Acquisitions
- Plan Contracting
- Request Seller Responses
- Contract Administration
- Contract Closure

## Plan Purchases and Acquisitions

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The purpose of the plan purchases and acquisitions process is to identify what needs to be met by purchasing and acquiring products, services, or results outside the project team.

This process involves consideration of whether, how, what, how much, and when to purchase or acquire.

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This process involves consideration of whether, how, when, where, how much, project obtains products, services, and results required for project performance. For a performing organization, the processes from plan purchases and acquisitions are performed for each item to be purchased or acquired.

The plan purchases and acquisitions process encompasses the consideration particularly if the buyer likes to exercise some degree of influence or control decisions. Emphasis should also be given to who is responsible for obtaining permits and professional licenses that may be required by legislation, regulatory policy in executing the project.

The project schedule is a key input to create plan purchases and acquisitions. In developing the procurement management plan can also influence the integrated with schedule development, activity resource estimating and

## Organizational Process Assets

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Existing formal and informal procurement-related policies, procedures, systems that are considered in developing the procurement management plan. Contract types to be used are provided by organizational process assets. Organizations also have established a multi-tier supplier system of selection to reduce the number of direct sellers to the organization and establish an

## Project Scope Statement

Project boundaries, requirements, constraints and assumptions related to the project are described in the project scope statement. Constraints are specific factors that limit buyers and sellers options. One of the most common constraints for managing resources. Other constraints can involve required delivery dates, availability of resources, organizational policies. Assumptions are factors that will be considered in the project. They include health, safety, security, performance, environmental, insurance, equal employment opportunity, licenses and permits.

The project scope statement provides the list of deliverables and acceptance criteria and its products, services and results. Consideration is given to all such items that are included in the procurement documentation and flowed down within a contract.

Important information about any technical issues or concerns related to the project that are considered during the plan purchases and acquisitions is provided by the product scope description component of the project scope statement. A structured and detailed plan for the project's scope is provided by the work breakdown structure (WBS) and WBS dictionary components of the project scope statement.

## Work Breakdown Structure

The WBS establishes the relationship among all the components of the project and its deliverables.

## WBS Dictionary

It provides detailed statements of work that provide an identification of the work within each WBS component required to produce the project's deliverables.

## Project Management Plan

The overall plan for managing the project is provided in the project management plan. It includes subsidiary plans such as a scope management plan. Procurement management plan, and contract management plans provide guidance for project management planning. To the extent that other planning outputs are a

procurement outputs are considered during the plan purchases and acquisition process.

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outputs are considered during the plan, purchase and acquisition process.

### **Risk Management**

It contains risk-related information such as the identified risks, risk ownership, mitigations strategies and contingency plans.

### **Risk-related Contractual Agreements**

It includes agreements for insurance, services and other items as appropriate to specify each party's responsibility for specific risks should they occur.

### **Contract Types**

There are various types of contracts for different types of purchases. The specific contract terms and conditions set the degree of risk being assumed by the seller. Contracts generally fall into one of three broad categories.

#### **Fixed Price or lump-sum contracts**

Fixed price or lump-sum contracts involve a fixed price for a well defined project. They provide incentives for meeting or exceeding selected project objectives such as time and cost. The simplest form of a fixed price contract is a purchase order for a specific quantity of specified data for a specified price.

#### **Cost-reimbursable contracts**

Cost-reimbursable contract involves payment (reimbursement) to the seller for the actual costs incurred, typically representing seller profit. Costs are usually classified as direct costs and indirect costs. Direct costs are costs incurred for the exclusive benefit of the project (salaries, materials, etc.). Indirect costs are usually calculated as a percentage of direct costs. Contracts often include incentive clauses where if the seller meets or exceeds selected performance targets or total cost, then the seller receives an incentive or bonus. Three types of cost-reimbursable contracts are CPF, CPFF and CPIF.

#### **Cost-Plus-Fee (CPF) or Cost-Plus-Percentage of cost (CPPC)**

Seller receives a fee that varies with the actual cost, calculated as an amount over the actual costs and also reimbursed for allowable costs for performing the contract.

#### **Cost-Plus-Incentive-Fee (CPIF)**

The seller receives a predetermined fee and incentive bonus based upon performance objective levels set in the contract and is reimbursed for the actual costs of the contract work. In some CPIF contracts, if the final costs are less than the target cost, both the buyer and seller benefit from the cost savings based upon a pre-agreed sharing ratio.

#### **Time and Material (T&M) contracts**

Time and material contracts are a hybrid type of contractual arrangement combining both cost-reimbursable and fixed-price type arrangements. These types of contracts are open ended. Buyer does not know the exact quantity of items to be delivered at the time of the agreement and the exact quantity of items to be delivered at the time of the agreement. Thus, time and material contracts can grow in contract value as if they were cost-reimbursable arrangements. Conversely, time and material arrangements can also be fixed-price type arrangements. For example, the buyer and seller can preset unit rates for a specific resource category. The requirements (standard or custom specifications, performance reporting and cost data submittals) that a buyer imposes on the seller, along with planning considerations, such as the degree of market competition and the nature of the work, determine which type of contract will be used. In addition, the seller can impose specific requirements as items that have additional costs. Another consideration is the potential of the product or service being acquired by the project team. If the seller has significant, sellers may be inclined or induced to charge prices that are

without such future sale potential. While this can reduce the costs to the buyer, it can also increase the risk to the buyer.

without such future sale potential. Firms who can reduce the costs to the buyer can reduce the costs to the buyer. This can have significant ramifications if the buyer promises such potential and is not, in fact, re-

### **Plan Contracting**

This process prepares the documents needed to support the request to select seller's processes.

### **Project Management Plan**

It provides other planning output documents which may need to be revised. It has been modified as part of the procurement documentation development. The development of procurement documentation is closely aligned with the project schedule.

### **Risk Register**

All risk-related information such as the identified risks, root causes of risks, risk results, risk prioritization, risk categorization, and risk responses generated by the processes are documented in risk register.

## **Plan Contracting: Tools and Techniques**

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### **Standard Forms**

Standard contracts, standard descriptions of procurement items, non-disclosure criteria checklists, or standardized versions of all parts of the procurement documents are included in standard forms. Organizations that perform substantial amounts of procurement use many of these documents standardized. Buyer and seller organizations use standard forms to ensure that non-disclosure agreements are appropriate and to disclose any project specific intellectual property information to other parties.

### **Procurement Documents**

These documents are used to seek proposals from prospective sellers. They are generally used when other considerations, such as technical skills or technical requirements, are paramount and terms such as bid, tender, or quotation are generally used. The decision will be based on price (as when buying commercial or standard items). These documents are often used interchangeably and care is taken not to make unwarranted implications of the term used. Common names for different types of procurement documents are invitation for bid, request for proposal, request for quotation, tender notice, and contractor initial response.

## **Request Seller Responses: Tools and Techniques**

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### **Bidder Conferences**

Also called as contractor conferences, vendor conferences and pre-bid conferences, these are held with prospective sellers prior to preparation of a bid or proposal and to ensure that all parties have a clear, common understanding of the technical and contract requirements. Questions can be incorporated into the procurement documents as answers to questions are given equal standing during this initial buyer and seller interaction.

### **Advertising**

Sellers can often be expanded by placing advertisements in general circulation newspapers or in specialty publications such as professional journals. Some countries require public advertising of pending government contracts.

### **Develop Qualified Sellers List**

If information is readily available in the organizational assets qualified sellers list, it can be used to identify potential sellers.

Information is readily available in the organizational assets qualified and developed from there also. The project team can also develop its own data if data is available. General information is widely available through internal and local associations, trade catalogs, and similar sources. Detailed information requires more extensive effort, such as site visits or contact with previous documents can also be sent to determine if some or all the prospective sellers are becoming a qualified potential seller.

### Select Sellers

Bids or proposals are received and evaluation criteria, as applicable, to select both qualified and acceptable as a seller are applied under select sellers. Sellers are evaluated in the seller selection decision process.

Primary determinant for an off-the-shelf item can be the price or cost. To deliver the products, services or results in a timely manner, the lowest cost is the lowest cost.

Proposals are often separated into technical and commercial sections with. Sometimes management sections are required as part of the proposal and

Critical products, services and results to mitigate risks that can be associated with delivery schedules and quality requirements could require multiple sources associated with such multiple sellers, including any loss of possible quality replacement and maintenance issues are considered.

The overall process of requesting responses for sellers and evaluating is repeated on major procurement items. A short list of qualified sellers can be developed from a preliminary proposal. A more detailed evaluation can then be conducted on a comprehensive proposal that is requested from the sellers on the short list.

### Select Sellers: Tools and Techniques

#### Weighting systems

The method for qualifying qualitative data to minimize the effect of percentages in each section is called a weighting system. Most such systems involve assigning weights to the evaluation criteria, rating the prospective sellers on each criterion, multiplying the rating and totaling the resultant products to compute an overall score.

#### Independent Estimates

The independent estimate is sometimes referred to as a should-cost estimate. An organization can either prepare on its own or have an independent estimator propose pricing for many procurement items. Significant differences from the proposed pricing may be an indication that the contract statement of work was not adequate, either misunderstood or failed to respond fully to the contract statement of work. The marketplace changed.

#### Screening System

Establishing minimum requirements of performance for one of the evaluation criteria in the screening system that can employ a weighting system and independent estimates. A prospective seller might be required to propose a project manager who will manage the project before the remainder of the proposal would be considered. These screening criteria provide a weighted ranking from best to worst for all sellers who submit proposals.

#### Contract Negotiation

In order to reach to a mutual agreement prior to signing the contract, the terms and conditions of the contract are clarified in contract negotiation. Final contract language is agreed upon.

reached. Subjects covered include responsibilities and authorities, application of contract terms, and the contract language.

related subjects covered include responsibilities and authorities, approach and business management approaches, proprietary rights, contract financial overall schedule payments and price. Contract negotiations conclude with a signed by both buyer and seller or the contract can be a revised offer by the buyer. For complex procurement items contract negotiation can have inputs (e.g. an issues or open items list) and outputs (e.g. documented simple procurement items, the terms and conditions of the contract can be accepted by the seller.

Even though the project manager and other members of the project management team are present during negotiations to provide, if needed, any clarification of the requirements and management requirements, the project manager may not be the lead negotiator.

### **Seller Rating Systems**

The seller performance evaluation documentation generated during the process for previous sellers is one source of relevant information. Seller rating systems are used by many organizations and use information such as the seller's past performance, delivery performance and contractual compliance. These rating systems are used in proposal evaluations screening system to select sellers.

### **Expert Judgment**

Expert judgment is used in evaluating seller proposals. A multi-disciplinary team is used in the evaluation of proposals with expertise in each of the areas covered by the proposed contract. This can include expertise from functional disciplines such as finance, accounting, engineering, design, research, development, sales and marketing.

### **Proposal Evaluation Techniques**

Based on some expert judgment and some form of evaluation criteria, a proposal evaluation system can be used to rate and score proposals. Evaluation criteria can involve both qualitative and quantitative components. Evaluation criteria are usually assigned predefined weights when used for a formalized proposal evaluation. The proposal evaluation process involves multiple reviews that are obtained during the select sellers' process and the scores are resolved. Using a weighting system that determines the total score for each proposal, an overall assessment and comparison of all proposals can then be made. Proposal evaluation techniques also can employ a screening system and a scoring system.

### **Contract**

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A contract is a legal relationship subject to remedy in the courts that is entered into between a buyer and a seller. It can be in the form of a complex document or a simple purchase order. The complexity of a contract is a function of the complexity of the products, services, or results and obligations that it provides.

The major components in a contract document generally include sections for the contract schedule, period of performance bonds, subcontractor approval, change orders, and termination and disputes mechanism.

### **Contract Management Plan**

Each contract management plan is a subset of the project management plan. A contract management plan for significant purchases or acquisitions is prepared based upon the requirements of the items within the contract, such as documentation and delivery, and per the requirements that the buyers and sellers must meet. The plan covers the contract administration throughout the life of the contract.

### **Resource Availability**

The quantity and availability of resources and those dates on which each resource is required are key factors in determining the feasibility of a project.

The quantity and availability of resources and those dates on which are active or idle are documented.

### **Procurement Management Plan**

It is updated to reflect any approved change requests that are procurer

### **Tools and techniques of contract administration**

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Contract change control system

Buyer-conducted performance review

Inspections and audits

Performance reporting

Payment system

Claims administration

Records management system

Information technology

### **Contract Closure**

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Contract addresses each contract applicable to the project or a project p project process as it involves verification that all work and deliverables closure process also involves administrative activities such as updating and archiving such information for future use. In multi-phase projects t be applicable to that phase of the project. Unresolved claims may be su contract closure.

Early termination of a contract can result from a mutual agreement of t of one of the parties. The rights and responsibilities of the parties in the are contained in a terminations clause of the contract based upon those project for clause or convenience at any time.

The buyer may have to compensate the seller for seller's preparations ; accepted work related to the terminated part of the contract as per tho conditions.

### **Conclusion**

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I have discussed at length the importance and criticality of procurement into details of the Project Plan, Sellers, types of Contracts, Risks involv and the requirement of proper planning in procurement. These have be experiences in the different aspects of procurement and hopefully even idea of procurement management and its importance in today's world.

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